

# FDIC State Profile

Spring 2005

## Montana

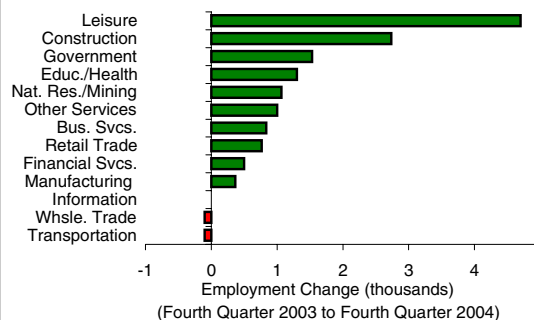
Montana job growth ranked fourth nationwide in fourth quarter 2004, and should remain relatively stable in 2005.

- Montana year-over-year employment growth was 3.6 percent as of fourth quarter 2004, exceeding the national rate and its own 1.1 percent growth pace last year.
- Job gains in **Billings** and **Great Falls** outpaced the state as a whole.
- Tourism sector job growth was strong; about 4,700 net new jobs were added during the last year (See Chart 1). The weaker dollar likely contributed to these gains.
- Housing market activity fueled job growth in the construction and financial services sectors, which added about 2,700 and 500 jobs, respectively. Together, these two sectors accounted for 11 percent of the state's labor force, but created 22 percent of new jobs. Going forward, the state's overall job growth may moderate if construction activity slows. Slowed building activity could also dampen construction and development loan growth, which surged 39 percent on a median basis among Montana-based insured institutions during 2004.
- Health services job growth was also solid during the last quarter, adding 1,800 positions over fourth quarter 2003. While the state's total population growth was in line with the national rate in 2004, the fastest growing population cohort—individuals between 51 and 65 years old—increased 36 percent during the 1990s. As this group continues to age, the health services industry likely will continue to expand.
- Higher energy prices contributed to double-digit employment growth in the natural resources and mining sector during 2004. Going forward, local economies in Eastern Montana, where the state's mining operations are primarily located, likely will feel positive ripple effects from increased mining activity as jobs in the sector are among the highest paid in the state.

**House prices continued to rise but remained affordable.**

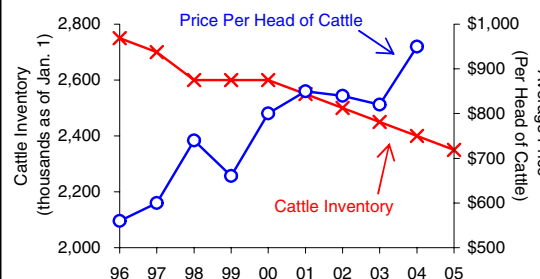
- As a whole, the state reported 9.9 percent growth in the house price index for fourth quarter 2004, slightly under the national rate of 11.2 percent. Price gains have been

**Chart 1: The Leisure and Construction Sectors Led Montana Job Growth in Fourth Quarter 2004**



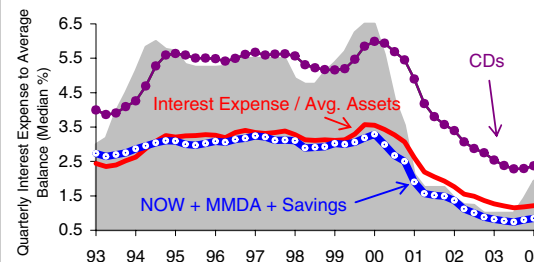
Source: Bureau of Labor Statistics

**Chart 2: Montana Cattle Inventories Continued to Slide Despite Price Increases**



Source: Montana Agricultural Statistics Survey

**Chart 3: Interest Expenses in Montana Responded to Federal Funds Rate Hikes in Late 2004**



Note: Includes Call Report filers only. NOW is negotiable order of withdrawal; MMDA is money market deposit account; DDA is demand deposit account; CD is certificate of deposit. Gray shaded area denotes average target Federal Funds rate for the quarter. Sources: FDIC; Federal Reserve

## State Profile

kept in check by a steady flow of new housing supply; record levels of single family and 2-4 family residential permits were issued in 2004.

- Like the state, Montana's three metropolitan areas each experienced slower home price appreciation than the nation. **Missoula** continued to report the highest rate of home price growth, consistent with its reported in-migration. In comparison, home prices and in-migration lagged in Great Falls.
- Despite price gains, housing in Montana remained relatively affordable for the average household.
- Continued home price increases spurred a median 1-4 family mortgage growth rate of 12 percent among Montana-based insured institutions. Home equity lines of credit contributed to the trend, increasing at a median annual rate of 48 percent, albeit from a low base.
- Low interest rates and mortgage loan growth likely helped the state's median past-due 1-4 family loan ratio decline year-over-year from 1.82 percent to 1.26 percent. Although past-due mortgage rates eased among the five institutions based in the Great Falls area, the median remained at a high 2.32 percent, possibly a reflection of slower price appreciation in that market.

### The agriculture sector faces risks on the horizon.

- Although Montana cattle prices were near record highs as of January 2005, cattle inventories in the state continued to decline as ranchers liquidated part of their herd or exited the business altogether (See Chart 2). Ranchers in the state now face the prospect of the Canadian border being reopened to cattle imports. USDA forecasts indicate that cattle prices may drop significantly in 2005 as the Canadian beef ban is lifted.
- Montana wheat prices remained relatively low because of continued strength in global production. Furthermore, although USDA forecasts suggest government subsidy payments to the sector will remain steady, the proposed federal budget released in early 2005 contained severe cuts in farm subsidies. If implemented, farm subsidy cuts could hit particularly hard in Montana where several producers rely on subsidies for income.

### Bank earnings are strong; however, funding costs face challenges in the near term.

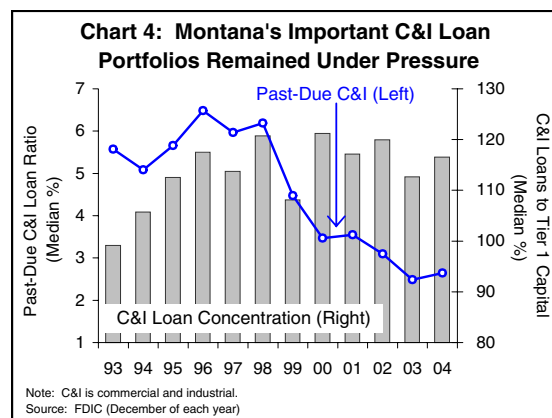
- The median year-to-date pre-tax return on assets increased from 1.7 to 1.8 percent among Montana-based institutions, the fifth highest of any state. Returns were lifted by improved net interest income and lower relative overhead and provision expenses. Net interest margins may have benefited, in part, from rising loan-to-asset

ratios, which increased to 66 percent on a median basis at year-end 2004.

- In late 2004, quarterly interest expense ratios among Montana-based banks increased in tandem with rising short-term interest rates (See Chart 3). Funding costs may rise further as deposit pricing fully incorporates recent and anticipated short-term interest rate hikes.
- However, the magnitude of increase may be less in Montana than elsewhere because of an above-average reliance on low and no-cost checking and savings accounts among banks based in the state. NOW, MMDA, and savings accounts typically fund at least 36 percent of Montana bank balance sheets, compared with 33 percent nationwide.<sup>1</sup> Similarly, the median demand deposit-to-total asset ratio among Montana-based institutions was 16 percent versus 12 percent nationally.

### Montana insured institutions report lingering commercial loan portfolio problems.

- Low interest rates contributed to continued loan growth and improved loan delinquency ratios in the state. The fourth quarter median past-due loan ratio declined modestly year-over-year to 2.2 percent, but remained high in relation to other states.
- Despite a slight improvement in overall loan quality, Montana's important commercial and industrial (C&I) loan portfolios deteriorated modestly—the past-due C&I loan rate of 2.64 percent ranked third among the states and increased from 2.49 percent one year earlier (See Chart 4). Past-due C&I loan ratios among institutions based in the Great Falls and Billings markets ranked first and fifth, respectively, among the nation's major metropolitan areas.



<sup>1</sup>NOW is negotiable order of withdrawal (an interest-bearing checking account with restrictions); MMDA is money market deposit account (an interest-bearing savings vehicle with limited check-writing privileges).

## Montana at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	3.6%	1.1%	1.8%	1.0%	1.1%
Manufacturing (5%)	1.9%	-5.3%	-5.1%	-7.3%	-1.3%
Other (non-manufacturing) Goods-Producing (8%)	12.6%	4.1%	2.8%	4.4%	1.4%
Private Service-Producing (66%)	3.4%	1.3%	2.2%	0.4%	1.4%
Government (21%)	1.7%	1.2%	2.1%	4.1%	0.8%
Unemployment Rate (% of labor force)	4.4	4.4	4.4	4.4	4.6

<b>Other Indicators</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Personal Income	N/A	7.5%	-1.1%	7.7%	5.9%
Single-Family Home Permits	23.1%	-4.6%	49.2%	2.9%	11.5%
Multifamily Building Permits	33.3%	-28.3%	113.6%	40.9%	-9.4%
Existing Home Sales	-0.8%	-6.1%	33.3%	16.7%	-10.0%
Home Price Index	9.9%	8.8%	6.5%	4.9%	5.4%
Bankruptcy Filings per 1000 people (quarterly level)	0.94	1.00	0.96	1.01	0.82

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Institutions (#)	80	80	84	86	89
Total Assets (in millions)	14,645	13,534	14,269	14,363	12,493
New Institutions (# < 3 years)	2	4	3	2	1
Subchapter S Institutions	24	23	18	18	17

<b>Asset Quality</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.19	2.26	3.04	3.16	2.07
ALLL/Total Loans (median %)	1.39	1.46	1.47	1.50	1.48
ALLL/Noncurrent Loans (median multiple)	1.57	1.37	1.43	1.20	1.53
Net Loan Losses / Total Loans (median %)	0.10	0.11	0.15	0.12	0.10

<b>Capital / Earnings</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Tier 1 Leverage (median %)	9.15	9.16	9.22	8.91	9.39
Return on Assets (median %)	1.22	1.23	1.16	1.17	1.27
Pretax Return on Assets (median %)	1.80	1.68	1.71	1.71	1.94
Net Interest Margin (median %)	4.63	4.57	4.72	4.80	5.01
Yield on Earning Assets (median %)	6.08	6.19	6.96	8.28	8.86
Cost of Funding Earning Assets (median %)	1.27	1.54	2.19	3.39	3.75
Provisions to Avg. Assets (median %)	0.13	0.18	0.16	0.12	0.13
Noninterest Income to Avg. Assets (median %)	0.69	0.74	0.71	0.76	0.71
Overhead to Avg. Assets (median %)	2.94	2.98	3.06	3.21	3.19

<b>Liquidity / Sensitivity</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Loans to Assets (median %)	65.7	61.3	63.1	61.8	64.0
Noncore Funding to Assets (median %)	14.4	14.0	13.9	14.1	15.8
Long-term Assets to Assets (median %, call filers)	14.5	16.1	15.2	15.3	14.1
Brokered Deposits (number of institutions)	15	10	9	8	13
Brokered Deposits to Assets (median % for those above)	3.8	5.6	4.2	1.4	1.5

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Commercial and Industrial	116.6	112.6	120.0	117.2	121.2
Commercial Real Estate	169.6	146.2	118.4	117.2	113.3
<i>Construction &amp; Development</i>	28.1	18.7	19.1	17.4	16.2
<i>Multifamily Residential Real Estate</i>	1.4	1.2	1.0	1.0	0.9
<i>Nonresidential Real Estate</i>	128.3	121.5	91.1	90.1	97.6
Residential Real Estate	112.3	91.9	101.7	106.7	120.4
Consumer	52.6	55.3	65.1	71.0	72.2
Agriculture	103.3	108.4	108.8	107.1	122.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Billings, MT	12	1,919	< \$250 mil.	68 (85%)
Missoula, MT	12	1,242	\$250 mil. to \$1 bil.	11 (13.8%)
Great Falls, MT	10	885	\$1 bil. to \$10 bil.	1 (1.3%)
			> \$10 bil.	0 (0%)